

CA20N
CC

74577

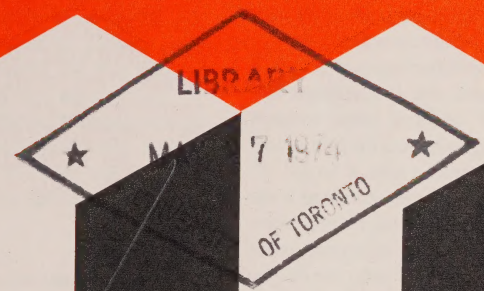
eral publications

Government
Publications

STARTING A SMALL BUSINESS

CA20N
CC

-74577



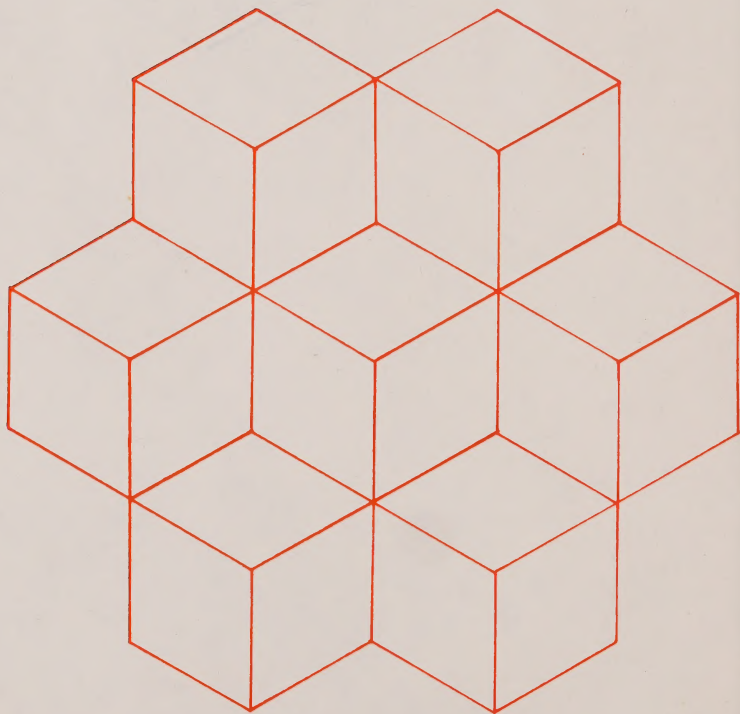
Ontario

Ministry of
Consumer and
Commercial
Relations

Almost everyone dreams of owning his own business at one time or another. Those who decide to take the plunge frequently have their businesses fail. Statistics show that 70 percent of all new businesses fail within the first five years.

Some businesses fail even before they're established, usually because the owner has overlooked an important step in setting up the business.

This booklet is intended as a guide to the major problems involved in starting a successful new business. However, it is not all-inclusive. Its main purpose is to make you aware of some of the areas that must be explored before launching any business. Further information can be obtained from sources indicated in this booklet or from your local public library.



Your Responsibilities

As a businessman you will have many responsibilities. You must abide by regulations regarding the payment of income tax, collection of income tax deductions and unemployment insurance from employee's wages, remitting unemployment insurance as well as federal sales and excise taxes and provincial sales tax.

You will also be responsible for collecting Workmen's Compensation contributions, complying with fire regulations and health and safety codes.

Being in business yourself, you will also be responsible to your local government for any local building codes, payment of property taxes and fees for any licences required. For example, the local Licensing Commission usually imposes extra levies on the sale of such items as soft drinks and cigarettes. You should consult with the Commission to make sure no special licences are required in your area of endeavor. Contact the clerk of your local municipality for details.

Consult a Lawyer

Starting your own business can be a very confusing exercise. It is always a good idea to consult a lawyer. He can advise you whether you should undertake a sole proprietorship, a partnership or become incorporated either federally or under Provincial regulations administered by the Companies Division, Ontario Ministry of Consumer and Commercial Relations. A qualified accountant is also familiar with various laws involved, including relevant tax considerations, and can help in organizing the financial aspect of the business including setting up your books correctly.

With so many new businesses failing, it is a smart idea to know everything before launching a small business.

Top independent businessmen offer the following tips:

- Keep your expenses low.
- Know how to attract new business.
- Make sure you have all fringe benefits you lose in your former job. (i.e. accident, hospital insurance, etc.)
- Maintain a proper set of records.
- Develop a method for collecting bills.

- Set up an employee medical insurance and disability insurance program.
- Make provision for retirement income for yourself and employees.
- Unless you have plenty of money, avoid putting a lot of money into fixed assets such as desks, cars, trucks and typewriters.

Sole Proprietorship

This is the simplest way of operating a business in Ontario. A sole proprietorship enables you to enter into business with the minimum of legal formalities, subject, of course, to licences that may apply to specific types of activities such as the selling of firearms or gasoline. Many municipalities require that you pay a business tax.

In a sole proprietorship, you, as the owner, have sole responsibility for the operation of the business. If the business fails, you must assume total liability. You could lose your home and all personal possessions.

If, as a sole proprietor, you wish to carry on a business under a name other than your own, you must register the name with your local Registry Office in the community in which you are doing business. This also applies when you want to add "and Company" after your name.

Partnerships

Entering into a partnership is a slightly more complicated way of starting a business in Ontario, and usually involves the partners entering into a Partnership Agreement dealing with capital contribution, division of profits and rights of management. It is advisable to have a lawyer draw up the agreement. When entering into a partnership it is necessary that you and your partners sign a declaration giving names, addresses and company name. This must be filed with the local Registry Office in the community where the business will be carried on within 60 days of the formation of the partnership. Forms are available from your local Registry Office.

The major drawback in a partnership is that you are liable for your partner's debts.

Advantages of Proprietorships and Partnerships

1. Both are relatively easy to start.
2. No incorporating fee is required. Registration is \$10 for either a proprietorship or a partnership.
3. Both are much less formal than incorporating.

Disadvantages of Proprietorships and Partnerships

1. Unlimited personal liability is perhaps the biggest drawback in operating a business in this manner. As an owner or part-owner, you are responsible for all debts and judgments against the business, including liability if the business fails.
2. Each partner can be held personally responsible for the other's debts.
3. All your profits are personally taxable.
4. The owners of this type of business do not have the advantages of employee profit sharing and pension plans as they would in a corporation.

Incorporation under Provincial Law

Under Ontario law no distinction exists between a public or private company. Corporations in Ontario fall into two categories, those which offer their securities to the public and those which do not.

The differences relate generally to shareholders' rights, the disclosure of public information and whether or not the corporation may restrict the transfer of its shares.

Corporations incorporated in Ontario are only required to have one shareholder. Corporations offering their securities to the public must have at least three directors, two of whom must not be officers or employees of the corporation or of any affiliate of the corporation. Ontario law requires that the majority of directors of all Ontario Corporations be Canadian citizens ordinarily resident in Canada.

Companies wishing to incorporate in Ontario must file articles of incorporation with the Companies Division, Ontario Ministry of Consumer and Commercial Relations, 555 Yonge Street, Toronto M4Y 1Y7. The minimum registration fee is \$125. Legal fees us-

ually amount to a minimum of \$500. A lawyer should be consulted.

A company incorporated under Ontario laws, wishing to do business or to own real property in another province, must take out a licence in that province. Generally, a licence can be obtained by filing an application with the proper provincial authority and paying the prescribed fee. A reciprocal licensing arrangement between the Provinces of Ontario and Quebec waives the licensing requirement.

Advantages of Incorporating

1. One of the most important advantages is that your liability is limited to the amount of money you put into the corporation, with certain exceptions as to unpaid wages.
2. If you, as the owner of a business, wish to raise capital, a corporation is a more attractive investment to those with money to buy your stock.
3. Tax options available to corporations exceed those of proprietorships or partnerships. As a corporation, you can set up pension, profit sharing stock option plans that are favorable to you and any other owners of the corporation. The ramifications and advantages of such plans and tax options should be discussed with a knowledgeable lawyer, accountant and insurance agent.
4. In the event of your death (as owner or principal) a corporation can be continued much more easily.
5. Corporation shares can be easily distributed to family members.

The Franchise

Buying a franchise is another way of going into business in Ontario. It involves the purchase of the right to operate a business according to a set plan or system that has been established by a franchising company. The product or service being marketed is identified by a trademark held by the franchising company and the company maintains some measure of control to ensure uniformity of practices and services throughout franchise outlets. The franchise owner becomes responsible for his own sales and his own survival.

Before committing time and money to such an operation, you should ask some basic questions about the company, its products

and the franchise agreement you are asked to sign.

For a booklet on "Buying a Franchise", write Consumer Buy-Line, 555 Yonge Street, Toronto M4Y 1Y7, Ontario.

Extra-Provincial Companies

All provinces in Canada require that foreign or extra-provincial companies be registered or hold a licence when doing business in their respective areas. The definition of "foreign" or "extra-provincial" company usually includes all companies other than those incorporated under a statute of the province in question, or under the Canada Corporations Act.

Incorporating under Federal Law

Companies incorporated by Letters Patent under The Canada Corporations Act have the right to carry on business in all provinces of Canada and do not require an extra-provincial licence in order to carry on business in any province of Canada. Such companies are subject, however, to provincial laws of general application in respect to holding land in the province and with respect to provincially imposed taxes. Ontario requires such companies to register and obtain a licence in order to hold land in the Province, as well as to file returns under the Corporations Information Act.

Labour

Labour Legislation

Labour legislation, as it applies to industry generally, is a responsibility of the Provincial Government, except that workers in industries within federal jurisdiction are subject to the Canadian Labour (Standards) Code. Such industries are those of a national, international or inter-provincial nature: transportation, communications, canals and pipelines.

For further information contact: Ontario Ministry of Labour, 400 University Avenue, Toronto, Ontario.

Employment Services

The Canada Manpower Division of the federal Department of Manpower and Immigration provides a comprehensive public em-

ployment service for all Canadian employers and workers and collects and publishes information on manpower supply and demand in all industries and occupations. Offices are located at: 480 University Avenue, Toronto, Ontario.

This service includes technical and financial assistance to employers in training, re-training and upgrading employees.

Employment Standards

The Employment Standards Act provides for control of the following: hours of work; overtime pay; minimum wage; equal pay for equal work; vacations with pay; homeworkers and wage protection.

For further information contact: Ontario Ministry of Labour, 400 University Avenue, Toronto, Ontario.

Unions

Freedom of association is guaranteed by legislation and employers are required to recognize and bargain with the trade union representing the majority of their employees. Wage rates, hours of work, fringe benefits and other aspects of working conditions, including vacations and statutory holidays, are normally settled through collective bargaining.

Hours of Work and Holidays

In general, a five-day, forty-hour week is in effect. There is a minimum hourly wage in Ontario.

One week paid vacation after the first twelve months of employment and two weeks upon completion of each twelve months of employment thereafter are compulsory. At least seven statutory holidays are mandatory. Time and one-half rates must be paid if employees are required to work on any such day.

For further information contract: Ontario Ministry of Labour, 400 University Avenue, Toronto, Ontario.

Cost of Fringe Benefits

It is very difficult to calculate the actual cost of fringe benefits. A recent unofficial survey placed the average at 22 percent of total wages for manufacturing payrolls. This figure includes: vacations, statutory holidays, overtime, pension plans and group insurance protection.

Health Insurance

If your business is to employ over 15 people, the Ontario Health Plan requires you to provide for group participation. Employers are required to make specified payroll deductions and remit them to the designated agency. Employer participation in the cost of the plan is not compulsory. Further information is available from: Ontario Ministry of Health, Hepburn Block, 80 Grosvenor Street, Toronto 182.

Canada Pension Plan

The Canada Pension Plan is designed to provide a basic retirement pension for all working Canadians. With few exceptions, participation is compulsory. Employers must deduct a percentage of employees' wages, make a matching contribution and remit the total to the federal Department of National Revenue along with income tax deductions.

Unemployment Insurance

All employees in Canada must be insured. Contributions by employer and employee plus supplementary contributions by the federal government are paid into this insurance fund. Employers are responsible for maintaining the employee's employment record, on which insurance benefits are based if unemployment occurs.

For complete details, ask your local Unemployment Insurance Office for a copy of the "Canada Pension Plan and Unemployment Insurance Premium Tables."

Workmen's Compensation

The Workmen's Compensation Act protects the workman against all accidents arising out of his employment. You, as an employer, are assessed annually at the rate appropriate for your industry, based on payroll records. Reporting payroll records is compulsory in industry.

For further information contact: The Workmen's Compensation Board, Ministry of Labour, Queen's Park, Toronto.

Credit Regulations

These regulations affect all business transactions in Ontario. Credit rates vary according to the source and the type of transaction. Factors which influence the interest charged are: the degree of risk involved; the

cost of money at a particular time, plus the expense of collection and record keeping. The Ontario Consumer Protection Act says that anyone selling merchandise costing more than \$50 on credit must provide the purchaser, before credit is given, with a clearly written statement showing the total finance charges both in dollars and cents, and the annual percentage rate being charged. The seller must also show, in writing, the additional charges he intends to make if the purchaser defaults on payments. This detailing of costs not only applies to contracts for goods purchased on credit, but also applies to monthly charge accounts and to all loans. Copies of the Ontario Consumer Protection Act are available at the Queen's Printer and Publisher, 880 Bay Street, Toronto. Retail price is \$1.

Taxes

Federal Corporation Tax

Federal income tax is levied on business firms in Ontario by application of scheduled rates on taxable income (after deductions). Tax payments are made in monthly installments throughout the year to the federal Department of National Revenue. For further information write: Department of National Revenue, Ottawa, Canada.

Provincial Corporation Tax

Ontario levies a provincial corporation income tax calculated on the same basis as the federal tax. Also, an annual "Capital Tax" is levied on the paid-up capital of a corporation.

Personal Income Tax

Every person resident in Canada has to pay personal income tax on his income for the year from all sources inside or outside Canada. Any individuals who stays in Canada for 183 days or more, in a year, is deemed to have been a resident in that year.

Payment of Tax

In Ontario, provincial taxes on individual income are collected by the federal government. The Ontario provincial rate is about 30 percent of the federal basic tax and the provincial tax is remitted by the federal government to the Ontario government. Federal and

Provincial taxes are paid together and only one return is required.

Federal Sales Tax

The Canadian government imposes a general sales tax on the manufacturer's selling price of goods manufactured in Canada and on the duty-paid value of imported goods.

Manufacturers or producers (including manufacturers and rebuilders) of goods subject to federal sales tax are required to obtain a sales tax licence. Further information can be obtained from the Department of National Revenue, Federal Sales Tax Division.

Federal Excise Tax

Complete details on these taxes can be obtained from the Customs and Excise Division, Department of National Revenue, Ottawa Canada.

Ontario Sales Tax

The Ontario Government levies a direct sales tax on goods consumed, used or sold within the province. The tax is levied on the basis of the selling price to the ultimate user or consumer. Retail vendors are required to obtain licences and maintain adequate records of sales. Some categories exempt from this provincial tax are: food; books; fuels; farm implements; livestock; feed and goods consumed in manufacturing or production. The numerous exceptions and the qualifications involved should be investigated.

For further information and a Vendor's Permit, contact your local Retail Sales Tax Branch. District Offices are located in:

Belleville	208 Dundas St. E.	962-9108
Hamilton	361 King St. W.	528-8393
Kitchener	824 King St. W.	744-6318
London	1472 Dundas St. E.	451-3000
North Bay	1400 Fisher St., Northgate Plaza	474-4900
Orillia	26 Colbourne St. E.	326-3519
Ottawa	Hampton Pk. Plaza, 1419 Carling Ave.	729-5103
Sudbury	1536 LaSalle Blvd.	674-3151
Thunder Bay	229 Pearl St.	345-1294
Toronto	85 Eglinton Ave. E.	487-7161
Welland	76 Division St.	688-1360
Windsor	374 Ouellette Ave.	252-4405

Municipal Taxes

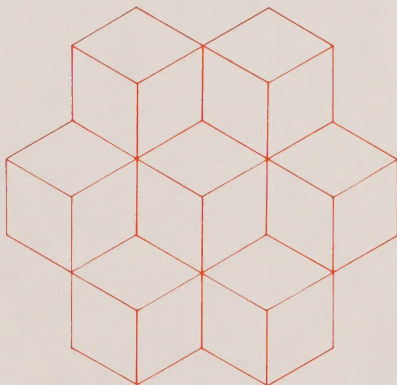
Municipalities in Ontario levy a local tax on land and buildings used for industrial purposes. An equalized system of assessment is being introduced for all communities.

Product Standards

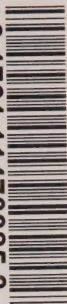
The Canadian Standards Association (CSA) establishes standards for a number of products, including electrical goods, offered for sale in Canada. Application may be made to the CSA Testing Laboratories, 178 Rexdale Blvd., Rexdale, Ontario.

The Standards Branch of the Department of Consumer and Corporate Affairs, Ottawa, is responsible for testing and approval of weighing and measuring devices.

The Health Protection Branch of the Department of National Health and Welfare, Ottawa, is responsible for all phases of buying and selling of food, drugs, cosmetics and medical devices. Particular emphasis is placed on the control of plant facilities, ingredients, formulae, packaging, labelling and advertising. Further information is available from The Health Protection Branch, Department of National Health and Welfare, Ottawa.



3 1761 11470385 3



Ministry of Consumer and Commercial Relations